Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CONFIDENTIAL
~~SECRET~~

COPY NO. 49
OCI NO. 5647/58

11 December 1958

CURRENT INTELLIGENCE WEEKLY SUMMARY

DOCUMENT NO. 7
NO CHANGE IN CLASS. ☐
☐ DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 1989
AUTH: HR 70-2
DATE: 15 Aug 79 REVIEWER:
25X1

CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

CONFIDENTIAL
~~SECRET~~

25X1

25X1

RETURN TO ARCHIVES & RECORDS CENTER
JOB 79T927 BOX 20

DIA, State Department review(s) completed.

A228 5/15/1

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

THIS MATERIAL CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE LAWS, TITLE 18, USC, SECTIONS 793 AND 794, THE TRANSMISSION OR REVELATION OF WHICH IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

The Current Intelligence Weekly Summary has been prepared primarily for the internal use of the Central Intelligence Agency. It does not represent a complete coverage of all current situations. Comments and conclusions represent the immediate appraisal of the Office of Current Intelligence.

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

25X1 Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Page Denied

25X1

Next 6 Page(s) In Document Denied

25X1

25X1

25X1

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

~~SECRET~~

CONFIDENTIAL

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

PART I

OF IMMEDIATE INTEREST

MOSCOW MANEUVERS TO DIVIDE WEST ON BERLIN ISSUE

The USSR appears to be preparing for the next phase of a major political offensive on the German question, following its proposals of 27 November on Berlin. Soviet diplomats in Moscow and various European capitals have stated privately that the Soviet Union is willing to include East Berlin in a demilitarized free city guaranteed by the United Nations, to place air and land access routes to Berlin under UN control, and to remove the East German capital to another city. Those modifications, which would make Khrushchev's original proposal more attractive to those elements who favor some form of disengagement in Europe, would be designed to maintain the Soviet initiative and keep the West off balance.

Ambassador Thompson believes Moscow probably has various "fallback positions" on Berlin for eventual use and further moves planned for the next six months. He suggests that if the West seems to reject the idea of including both sectors of Berlin in a free city, the Soviet leaders might be encouraged to put the offer forward officially. He believes they may still do so, however, even though they expected to be called on to implement the plan.

25X1

Moscow had given very careful consideration to this possibility and hinted that the USSR would be prepared to consider a confederation scheme for all Berlin along the lines of its proposals for German reunification.

The Russians probably are confident they would stand to gain major advantages from either Western acceptance or rejection. Acceptance would require the withdrawal of Western garrisons and negotiations with the East Germans for creating an access corridor to Berlin controlled by the UN. Such negotiations would lead to at least a large measure of international recognition of the East German regime.

Rejection by the West, in Moscow's view, would greatly strengthen the Soviet position for carrying out the previously announced plans to transfer control over Allied access to West Berlin to the East Germans. The Soviet leaders probably also expect that a negative Western reaction would stimulate increased pressure on Western governments from opposition parties, particularly in West Germany and Britain, for a fresh approach based on various disengagement schemes which would lead to the demilitarization and neutralization of a reunified Germany.

The idea of including all of Berlin in a free city has already attracted some support in Western Europe. The French Foreign Ministry, immediately after receiving the Soviet note of 27 November, was considering this as a possible Western counterproposal. Proponents of disengagement in

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

the British Labor and the West German Social Democratic parties may agree with West Berlin Mayor Willy Brandt that a free-city status for the entire city might be acceptable as a "last resort."

Other Solutions

Khrushchev has indicated he is determined to settle the Berlin situation on his own terms. Referring to Berlin as "a bone in my throat," he told Senator Humphrey on 1 December he would be ready to consider any "reasonable" Western counterproposal on the subject. In particular he underlined the similarity between the Soviet proposal on Berlin and the creation of a neutral Austria under four-power "guarantee"--a line also taken in the Soviet note on 27 November.

Although Khrushchev told Humphrey that the Berlin problem should be kept separate from the broader issue of German reunification, his remarks appear to forecast further Soviet proposals, linking settlement of the Berlin question with broader plans for a general German and European settlement. Such an approach emerged in a recent assertion by East German Premier Grotewohl that "the same basic attitude which we assume in the Berlin question is also valid for the solution of the German problem." He called for "energetic steps" to reach a German peace treaty, stating: "The peace treaty is the part of the German problem which offers the best chances of achieving certain settlements and serves as a start for the solution of all vital problems."

Such a settlement would include a rapprochement between the two Germanys, an all-European collective security system, and a nuclear-free zone in central Europe as proposed in the Rapacki Plan.

Like the Soviet leaks on including East Berlin in a free city, suggestions for a rapprochement between the two Germanys are calculated to stimulate efforts by opposition parties, particularly in West Germany and Britain, to press for fresh approaches to the German problem. Meanwhile, however, recurrent assertions by East Germans that Berlin is their capital and that the GDR expects to receive control as of 1 June of Western access to the city are designed to maintain pressure for a speedy solution.

Polish Fears

To underline Polish sovereignty over the Oder-Neisse territories which passed to Poland under the Potsdam accord, a top-level East German delegation headed by party boss Walter Ulbricht is now visiting Poland. The Poles reportedly fear that Khrushchev's statement that the Potsdam Agreement should be considered nullified jeopardizes Poland's possession of these territories. Gomulka and Ulbricht are both emphasizing the close ties between Poland and East Germany under the Warsaw Pact, and Gomulka has declared he now considers that the Polish line of defense is on the Elbe River.

No Change in Berlin

Although the USSR apparently is continuing to reduce

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

the personnel of its Military Liaison Mission to the British Army in West Germany--now three officers instead of the former 11--Soviet officials in Berlin appear to have taken no further steps to turn over their functions to the East Germans. The Soviet governor of Spandau prison, which is administered by the four powers, recently said he believed Khrushchev did not mean to include the prison in the proposed "free city" and asserted that "there would probably be other functions we would continue to perform." East German spokesmen are nevertheless continuing to emphasize they may make changes in the existing structure of communications. In the latest threat, politburo member Matern on 4 December questioned the right of Western civilian aircraft to overfly East Germany en route to West Berlin.

Western Positions

The Western governments are reserving their positions on answering the Soviet note pending the outcome of the NATO foreign ministers' meeting from 16 to 18 December. Although there is general agreement that a "free-city" status for West Berlin is unacceptable and that Moscow's unilateral abrogation of the four-power status of the city should be rejected, there are indications that Bonn, Paris, and London may differ on their approaches to the Berlin problem. Chancellor Adenauer emphasized publicly that Berlin must not be left "hanging in the air" in case broad negotiations on Germany and European security are proposed. Foreign Minister Brentano has proposed a strong preliminary reply to the Soviet note to refute Moscow's charges against the West in relation to Potsdam and German rearmament.

London, however, seems more inclined toward countering Moscow's Berlin moves with a proposal for discussion of the entire German problem, possibly at a summit meeting. An urgent request by Adenauer to meet with Macmillan--a request subsequently withdrawn because of the chancellor's illness--was probably an effort by Adenauer to determine to what extent the British would advance various disengagement proposals in connection with the East-West talks. The French Foreign Ministry has prepared a preliminary draft reply to Moscow stating France would be prepared to enter into discussions on German reunification and European security, through which some "arrangement" might be worked out concerning Berlin.

In the West Berlin elections on 7 December, the East German Communists were decisively defeated, polling only 1.9 percent of the vote as contrasted with a 2.7-percent share in 1954. The 52-percent majority won by Mayor Willy Brandt's Social Democratic party (SPD) will strengthen Socialist contentions that a Berlin settlement must be included in talks on the German question. The election campaign, however--and particularly Adenauer's partisan intervention--has disrupted attempts to form a bipartisan policy in Bonn, but Brandt's inclusion in the German delegation to the NATO meeting may do something to restore interparty cooperation as well as refute reports of growing discord between Brandt and Bonn over the approach to the Berlin question.

25X1

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

MIDDLE EAST DEVELOPMENTS

Iraq

Iraqi Prime Minister Qasim began moving about 6 December against the supporters of the UAR-backed coup attempt, and by the coup's target date of 10 December apparently had rounded up the principal leaders. Among those reported arrested are the chief of the national police, the chief of the Baghdad police, a number of tribal sheiks, and Rashid al-Gaylani, the would-be leader of a new government. Qasim has not openly accused the UAR of complicity, asserting only that the plot was backed by "a foreign power," and he is not denying Cairo's charges that the United States had a hand in it. Moscow also quickly sought to associate the United States with the conspirators, and the charge has been echoed in the Baghdad press.

An air of tension is still present in Baghdad itself, and there may well be further government changes involving the ouster of individuals who were too openly pro-UAR. There is also some danger of mob action, possibly inspired by the Communists or other elements. Two Americans were roughed up in Basra this week, and in the capital, self-appointed "defenders of the republic" are stopping and searching vehicles at random.

25X1

Jordan

[redacted]

25X1

[redacted] It was suggested that unauthorized movements into the Jordan River valley of armored units. 25X1

[redacted] were a prelude to coup action. There has been no confirmation of these reports, however, and the American military attaché in Amman doubts that a coup attempt is imminent.

The basically unstable character of the Jordanian situation continues, however, and may be aggravated seriously this month, since Jordanian officials insist that the army payroll due 27 December cannot be met from existing funds unless the government is willing to dip into its financial reserves. Some observers fear that some elements will be tempted to undertake an adventure, either at home or against Syria or Israel before the money runs out.

Israeli-Arab Borders

A series of incidents on the Israeli-Syrian border, beginning with an artillery duel on 3 December, has produced in Israel an atmosphere reminiscent of the summer of 1956 before the Suez campaign. Tel Aviv is taking a line, familiar two and a half years ago, that unless

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

the United Nations or other powers are able and willing to "do something" about Arab "aggression," Israel may be forced to take matters into its own hands. The Israeli complaint submitted to the UN Security Council may thus be only an effort to build a record which would justify "retaliation" against the UAR later on.

25X1

The UAR press has been playing up the border tension, possibly as psychological preparation against some new Israeli action, but observation of the Israeli side of the border has not yet revealed any significant build-up there.

Sudan

Warm statements of friendship for the UAR made by General Abboud and others, however, have not been followed by any apparent softening of the Sudanese stand on division of the waters.

The regime is giving major attention to solving the Sudan's economic difficulties and has requested an American long-term loan of $43,050,000 as the first step in projects that might ultimately require several dollars. Foreign Minister Khayr has also inquired about the possibility of military aid, the availability of Export-Import Bank loans, US agricultural surpluses, and other forms of American aid. His approach to the United States may be designed to test Western support prior to a possible visit of a Soviet economic delegation, previously scheduled for last month and now temporarily postponed.

25X1

SOVIET TACTICS AT GENEVA

Test-Control Talks

The Soviet delegation to the nuclear test cessation talks at Geneva continued its efforts this week to create the impression of substantial progress toward agreement. At formal sessions on 6 and 8 December, the Soviet team approved two draft articles which would prohibit nuclear-weapons tests and establish a control organization with which "each of the parties (would agree) to cooperate promptly and fully." On 9 December the Soviet delegation introduced a lengthy

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

detailed text of "basic provisions" for a control system in an effort to undercut Western charges that the USSR refuses to negotiate details of an effective system. The plan, designed to appear comprehensive in scope, fails to include the basic guarantees for a foolproof system set forth previously by the West.

The plan calls for a "control organization" to be established by the "founder states" --the US, the UK, and the USSR. The organization would include a "control commission," a "technical system," ground posts, control posts at sea, and aircraft. The commission would direct all elements of the organization to ensure: continuous and effective observations over possible sites of nuclear explosions, carrying out of regular flights over the high seas, processing of data, and organization and carrying out of on-the-site inspections of suspected violations. It would review all cases of suspected violation and adopt decisions on the existence or nonexistence of "sufficient grounds" for sending out inspection teams.

The USSR insists that all substantive decisions of the control "commission" be subject to veto by any of the three "founder states" in the commission and that disputes be referred to the UN Security Council. The plan fails to meet Western requirements on other major issues. It does not provide for a truly international organization, requiring instead that all personnel at the control posts, except for one or two senior officials, be nationals of the country in which the post is located. Soviet delegate Tsarapkin contended that his proposals were based on the report of the Geneva technical talks last summer or, in some cases, on the views expressed by the Soviet expert at those talks. Tsarapkin also alleged that these "basic draft provisions" were sufficient and that all other details should be covered in agreements drafted by the organization itself.

Tsarapkin's insistence that the Soviet control plan is derived from the Geneva technical report will probably be used by Soviet propaganda as a basis for charges that a Western rejection is another retreat from previous positions and agreements. While the USSR may be willing to compromise on such points as the make-up, privileges, and immunities of control post personnel, and on communication facilities for the control organ, it is unlikely to drop its insistence on unanimity on all important questions.

In a press conference on 9 December, Tsarapkin firmly rejected majority voting, stating that Moscow "cannot accept an automatic two-to-one majority against it." He claimed that a country suspected of conducting tests would be obliged by world public opinion to let inspectors into its territory. However, he did tell the Western delegates that it should be possible to find a compromise defining which questions require unanimity and which need only a simple majority.

Surprise-Attack Talks

The Soviet delegate to the surprise-attack talks continues to repeat previous

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

criticisms of the Western technical approach to the problem while privately indicating his readiness to conclude the talks before Christmas on a mutually acceptable basis. Soviet press and radio comment is very pessimistic as to the outcome of the negotiations. Moscow radio has broadcast charges of "sterile discussions," which it attributes to the Western "negative" attitude toward "constructive" Soviet proposals. Moscow is probably satisfied that its omnibus proposals on inspection and disarmament in the declaration of 28 November, made public on 7 December, contrast favorably with the West's insistence on a careful, technical study of the problem. [redacted] (Concurred in by OSI) 25X1

* * *

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

~~SECRET~~

CONFIDENTIAL

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

PART II

NOTES AND COMMENTS

KHRUSHCHEV TALKS WITH SENATOR HUMPHREY

Khrushchev's conversation with Senator Humphrey on 1 December covered some subjects which Soviet leaders have rarely discussed with Westerners. In addition to setting forth his position on the Berlin situation and the Geneva conferences, Khrushchev claimed that the USSR detonated a compact hydrogen bomb yielding five megatons. He also said the Soviet Union has stockpiled so many weapons that production of fissionable materials for weapons purposes could be suspended, and he added that some existing weapons would be dismantled.

It may be true that the Soviet Union is dismantling some of the older models of nuclear weapons, a normal procedure, but these will undoubtedly be replaced by weapons of latest design. Khrushchev gave no date when production of fissionable materials for weapons purposes would cease.

Khrushchev also told Humphrey that the USSR now has a rocket which can travel 7,500 nautical miles. The success the USSR has had in orbiting its sputniks indicates it could launch a rocket with that range. A minimum rocket-propulsion system capable of orbiting Sputnik II (1,100 pounds), for example, could deliver a 1,500-2,000-pound nose cone to 7,500 nautical miles, and a maximum rocket-propulsion system could deliver a nose cone of about 7,000 pounds to the same distance. Such a missile could reach any point in the United States from any point in the USSR.

In discussing internal affairs, Khrushchev stated that he had already reduced the role of the secret police from what it was under Stalin and that he intended to reduce it still further. The ouster of General Serov as secret police chief, announced on 9 December, may be the forerunner of further changes. (Concurred in by OSI) 25X1

THE NATO MINISTERIAL MEETING

The Berlin situation will be the center of interest for the NATO ministers who convene in Paris from 16 to 18 December for their annual meeting, and, as a result, the usual debate on the status of the NATO military effort will carry a sense of increased urgency.

The 14 December meeting of the Western Big Four foreign ministers will be a prelude to the NATO discussions on Berlin. Secretary General Spaak believes that the minimum action taken by the NATO meeting should make clear that the West is willing to discuss a basic German settlement. He feels, however, that if the USSR persists in confining the problem to Berlin alone, NATO should guarantee the freedom of West Berliners and state that no interference with the present right of access will be tolerated.

Discussion of the annual review of the military effort will probably reflect top military authorities' concern that progress toward achieving minimum force levels considered essential for 1963, as set by a Military Committee study--MC-70--

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

last year, already falls short of requirements. These authorities have warned that continuation of this trend will jeopardize NATO security by 1961.

25X1

[redacted]

The French, by their non-cooperation on key military projects such as the integrated air defense plan and implementation of the new weapons program, are showing an obstructionist attitude which will add to the alarm aroused by the De Gaulle proposals for three-power global policy coordination. De Gaulle is reported to have declared he would subordinate development of the French position in NATO to consideration of his proposals. The subject of De Gaulle's views will probably be raised in connection with Spaak's comments on "world-wide consultation" in his report on political cooperation. While agreeing that certain countries have responsibilities outside the framework of the NATO treaty on which they are free to confer, Spaak claims that their conclusions should be submitted to further consultation in the North Atlantic Council.

Tripartite talks now being held in Washington to explore and clarify the meaning of the De Gaulle proposals are being viewed with suspicion in several countries--especially Italy--which are sensitive on matters of national prestige.

[redacted] 25X1

DE GAULLE MARKS TIME ON ALGERIAN POLITICAL SOLUTION

Premier de Gaulle, blocked in his hope for an early political solution in Algeria, is emphasizing his economic and social development program, with the apparent intention of further weakening the rebel Algerian National Liberation Front (FLN) and side-stepping pressure for immediate integration of Algeria with France. He is preparing to shift from military to civilian control in Algeria and has publicly reaffirmed his view that Algeria is distinct from France, but has not specified what its ultimate status is to be.

During his 3-7 December visit to Algeria, De Gaulle repeated his appeals to the rebels to end the war, but he is not likely to make further public overtures to the FLN leadership in Tunis and Cairo. He was sharply disappointed when moderate rebel elements, with whom his representatives had had secret contacts, were outvoted by the extremists, who demand early independence. By stressing in his short radio address on 7 December his devotion to the "Algerian personality," he hoped to strengthen the moderates. He is counting on the effectiveness of the barrier along the Tunisian border to promote further defeatism in rebel ranks, but ex-Mayor Chevallier of Algiers, a proponent of a liberal solution, believes that coastal gunrunning will give the rebels sufficient supplies to keep up their morale.

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

By postponing consideration of a political solution, De Gaulle is admitting that the deputies elected in Algeria are not the valid representatives with whom he had offered to discuss the political future of Algeria and in effect is bidding for a rebel compromise. He has raised a new barrier by making a political solution dependent on economic development, a qualification Moslem leaders may be quick to equate with earlier French failures to carry out promises.

De Gaulle's immediate problem is with the pro-integration forces, whose first moves will probably depend on De Gaulle's choice of his successor as premier following the presidential election on 21 December. By taking with him to Algeria Paul Delouvier, the economic expert he proposes to put in General Salan's position as delegate general, De Gaulle signaled his intention to begin a return soon to civilian control in Algeria. The divorce of the military from direct administration, however, will not resolve the problem of military pressure for integration. De Gaulle will have little time before the assembly convenes in late April for the effects of an economic revolution to set the stage for a more liberal political solution.

25X1

CYPRUS

Adoption by the United Nations on 5 December of an innocuous compromise resolution on Cyprus, expressing confidence that "continued efforts will be made by the parties to reach a peaceful, democratic, and just solution in accordance with the Charter of the UN," emphasizes the lack of progress on the issue made at this year's session of the General Assembly. The debate resulted in a defeat for Greece in its campaign to secure backing for the "guaranteed independence" for Cyprus and a limited victory for Britain and Turkey, as both states had opposed UN endorsement of any specific final settlement.

Unanimous adoption of the resolution in plenary session followed eight days of bitter debate in the General Assembly's Political Committee, during which attention was focused on resolutions sponsored by Iran and India. The Iranian resolution, supported by London and Ankara, called for negotiations outside the UN; the Indian resolution, supported by Athens, called for self-government for Cyprus and preservation of the island's integrity. The Political Committee eventually adopted Iran's resolution but by less than the two-thirds majority required for its passage in the plenary session of the General Assembly.

Adoption of the compromise resolution has probably not significantly improved the prospect for a tripartite conference to discuss the island's future. Archbishop Makarios, whose influence within the Greek Government remains strong, has repeatedly indicated he opposes such discussions. New efforts to convene a conference, however, will probably be made in the near future.

In a speech before the Political Committee, Greek Foreign Minister Averoff attacked the lack of American "neutrality" in a dispute among friends, and both the Greek and Greek Cypriot press have denounced the United States for backing the Iranian resolution and thus

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

opposing the concept of an independent Cyprus.

On Cyprus, a truce proclaimed by EOKA continues, although occasional acts of sabotage occur. Governor Foot has lifted many of the security restrictions, but operations against EOKA continue with some success. The British apparently intend to proceed with their "partnership" plan for Cyprus, but its implementation will probably bring about a resurgence of terrorism.

25X1

THE LEBANESE INTERNAL SITUATION

While an air of calm prevails in Lebanon, basic issues have not been resolved, and opposing factions are thinking in terms of another eventual round of civil strife. The authorities, with little hope of a general disarmament of the populace, are endeavoring to keep civilians from openly carrying arms.

Late in November serious clashes occurred in Tripoli between former rebel elements and security forces. The crackdown was ostensibly prompted by a wave of robberies. However, political feuding between Prime Minister Karami and his former Baathist and Communist supporters in Tripoli may have motivated this move by the security forces. Southern Lebanon has also been the scene of terrorist activities, which the authorities apparently have been unable to subdue. Druze leader Jumblatt, who controls the mountainous area south of Beirut, is said to be at odds with Karami and has not demobilized his armed bands.

Former President Chamoun has organized a party, ostensibly "national" in character, but actually Christian in outlook, membership, and goals. Chamoun believes the parliamentary elections which may be held next spring might result in large-scale civil strife. He is said to be attempting to build up a paramilitary force in anticipation of such difficulties.

Following the announcement of an American grant of $10,000,000 for budgetary assistance, Prime Minister Karami denounced the "Eisenhower Doctrine" previously accepted by the Chamoun government. This is in line with Karami's desire to accept "aid without strings" from the West, while following a pro-Arab foreign policy. The Christians' awareness of Karami's outlook adds to their fears for the future of an independent Lebanon.

25X1

IRAQI-IRANIAN RELATIONS WORSENING

Relations between Iraq and Iran, strained since the Iraqi coup last July, have worsened recently. Baghdad asserts that the defense agreement being negotiated between Iran and the United States is directed at Iraq.

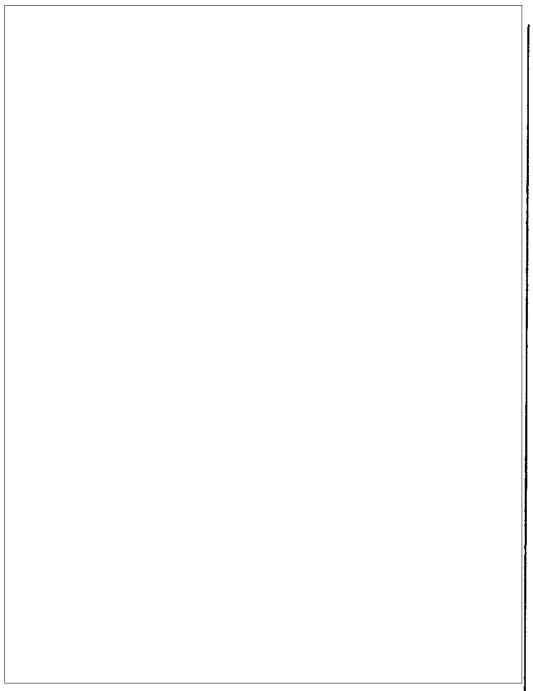
Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

25X1



The long-smoldering dispute between these two countries over navigation and ownership of the Shatt-al-Arab River, which forms their border near the Persian Gulf, has also become a major source of contention which the new Iraqi regime is refusing to negotiate. Before the July coup the two countries were trying to settle this dispute through Swedish mediation. Iraq recently increased the problem by proclaiming the extension of its territorial waters in the Persian Gulf to 12 miles.

Iran has protested against the growing anti-Iranian propaganda in Iraqi newspapers and books, the pressure exerted on the Iranian Embassy by Iraqi groups, and a flood of telegrams and letters criticizing Iranian acts and policies. Iraq's recent demand that Iran close all its consulates--a move which will probably cause Tehran to take retaliatory action against Iraqi consulates in Iran--has added another issue to the general deterioration of relations. 25X1

SOVIET MOVES IN WEST AFRICA

Moscow's persistent campaign to gain a diplomatic foothold in the independent states of West Africa is reflected in the arrival in Guinea in early December of the first official Soviet visitors since the USSR's quick recognition in October. The two-man Soviet delegation--a diplomat and a trade official from the Soviet Embassy in Cairo--almost certainly pressed Guinea's Premier Toure in a meeting on 5 December for an early exchange of diplomatic missions in order to speed possible Soviet economic assistance.

Premier Toure, a left-wing nationalist who has collaborated with Communists in the past, may be receptive. He has already signed trade and cultural accords with East Germany--Guinea's first agreements with a foreign power--and apparently envisages the early conclusion of similar agreements with Czechoslovakia.

Soviet tactics in Africa are designed to promote identification with all emerging nationalist elements and to further reduce Western influence

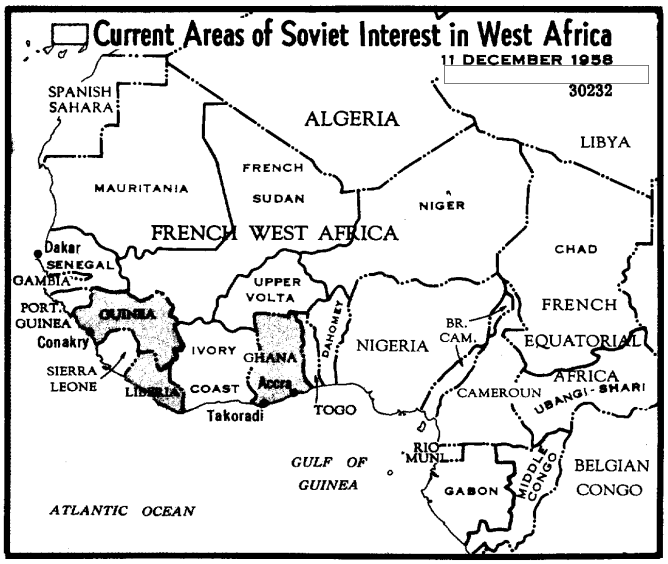
Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

in the newly independent states by the rapid establishment of economic and political relations. Soviet leaders apparently look to Guinea as the opening wedge leading to Soviet diplomatic missions in Ghana and Liberia, since a Soviet mission at Conakry would increase pressure on both Prime Minister Nkrumah and President Tubman to implement earlier decisions in principle to accept Soviet representation.



25X1

Tubman has hedged since 1956 on his commitment to exchange missions, but he remarked in August that the Russians, "never know when to give up."

Nkrumah has indicated he will turn to the bloc for aid if Western assistance is not forthcoming. An offer of engineers and machinery from Poland and Czechoslovakia has already been received, according to Accra officials. In its propaganda, Moscow has publicly endorsed the idea of a union of West African states and has praised the recent "union" of Guinea and Ghana as an "excellent example" to other African peoples.

Moscow has attempted to give the All-African Peoples' Conference in Accra from 5 to 12 December an anti-Western orientation. Khrushchev's message to the conference on 5 December hailed it as "another step along the road to full liberation of Africa from foreign domination." "Observers" from the USSR are attending the conference, and a Pravda correspondent, newly assigned to Ghana, has agitated among the delegates for extreme leftist resolutions. The two-man official Soviet delegation to Guinea reportedly went on to Accra for the meeting.

The Communist and UAR-dominated Afro-Asian Solidarity Committee, which made no secret of its hostility to the Accra meeting, attempted to steal the spotlight by a propaganda splurge proclaiming 1 December as "Quit Africa Day." Nkrumah's warning that non-European colonialism could appear in Africa prompted four Soviet "observers" to walk out during his opening-day speech.

Frequent calls at West African ports by Soviet oceanographic and fishing vessels are other means used by Moscow for increasing contacts in this area. (Concurred in by ORR)

25X1

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

THE USSR'S FOURTH SEASON IN THE ANTARCTIC

The fourth season of Soviet activity in the Antarctic is under way. Announcements made by Moscow, notably at the Second Special Committee on Antarctic Research (SCAR) conference in Moscow several months ago, disclosed plans for a major expansion of operations both during the 1958-59 season and following the International Geophysical Year, which ends 31 December.

The Soviet Union plans eventually to add three new Antarctic bases, bringing its total to seven--two of which may be summer stations. This effort, a far cry from Moscow's modest original announcement in July 1955 of its intention to establish "one or two" stations, will establish a predominant position for the USSR in the area; the United States has only three major stations.

Two of the new Soviet stations are to be set up this season, one at the "Pole of Inaccessibility," and the second, to be called Lazaryev, on Princess Astrid Coast in Queen Maud Land. The third station, to be called Bellingshausen, is to be set up, possibly in 1959-1960, in the unclaimed sector in the vicinity of Thurston Peninsula. With this operation, the USSR will become the first nation to challenge the leading American position in the unclaimed sector. Under present conditions of concern over missile development, the presence of Soviet scientific teams less than 1,500 miles from the South American continent is likely to increase apprehension among the countries of the southern hemisphere.

The USSR has announced that it will give to Poland the Oazis station with all its equipment. The sudden entry of another bloc nation into Antarctica appears to be a Soviet maneuver to gain an additional voice in whatever administrative machinery may be created under a proposed treaty on Antarctica among interested countries and in SCAR as well.

Ambitious overland geographic and geologic studies are to be undertaken this season in the coastal zone of Queen Maud Land and, possibly in 1959-1960, in the coastal zones along the Amundsen and Bellingshausen Seas. Preparations are under way this year for a major tractor traverse in 1959-1960 of approximately 3,750 miles from Mirnyy to Vostok, the South Geographic Pole, the Pole of Inaccessibility, and Lazaryev Station. A second is also planned from Mirnyy to the proposed Bellingshausen station via the Geographic Pole at a later date.

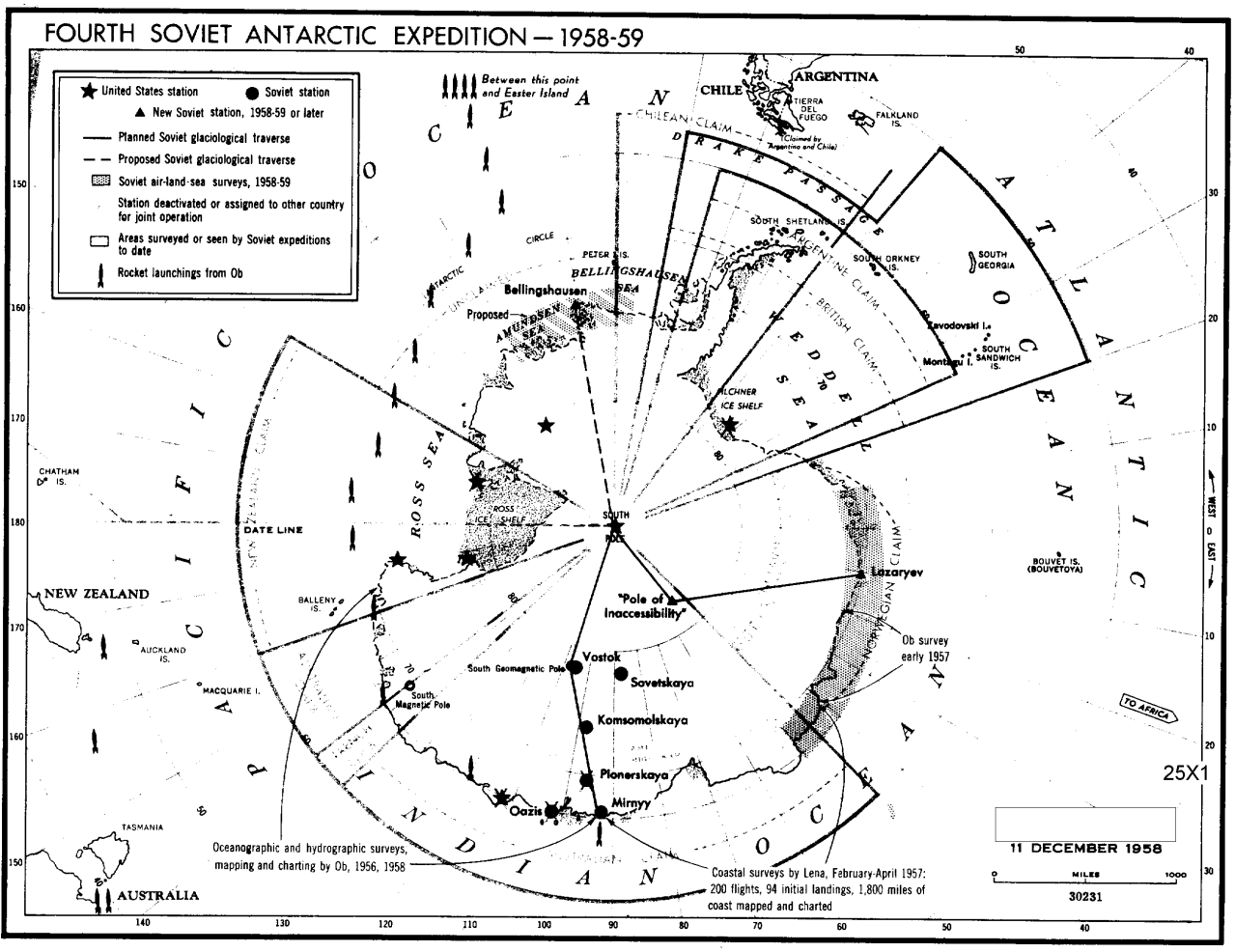
The USSR has proposed an international project to produce a reconnaissance map of Antarctica, and it has assumed leadership by offering to map one third of the area and any additional parts which other nations cannot undertake. Moscow has proposed that two Soviet jet aircraft and equipment be used in this work--allegedly to operate at 50,000 feet. Oceanographic surveys, including hydrographic charting and mapping, are to be undertaken in the waters adjacent to these coastal zones--in the Atlantic in 1958-1959 and possibly in the Pacific the following

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958



25X1

year. This survey may be assisted by the new "scientific submarine" which the USSR reportedly will operate in the southern hemisphere this year. Construction of a second whaling fleet is already nearing completion, and a third is reported in the planning stage.

Reflecting a shift from temporary to permanent organizational management, an Interdepartmental Antarctic Commission has been set up under the presidium of the USSR Academy of Sciences, and the scope of the Arctic Scientific Research Institute has been broadened to include the Antarctic. The institute accordingly has changed its name to the Arctic and Antarctic Scientific Research Institute of the Chief Directorate of the Northern Sea Route, Ministry of the Maritime Fleet. [redacted] (Prepared by ORR; Concurred in by OSI) 25X1

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

SOVIET SECRET POLICE CHIEF REMOVED

The removal of General Ivan Serov as Soviet secret police chief, announced on 9 December, appears to be another move by Khrushchev to head off the growth of entrenched power not completely responsive to his control. It may also have been intended to underscore Khrushchev's control on the eve of the forthcoming special party congress. The announcement stated that Serov was to be transferred to other work but gave no indication of what that might be or who might succeed him as chairman of the Committee of State Security (KGB).

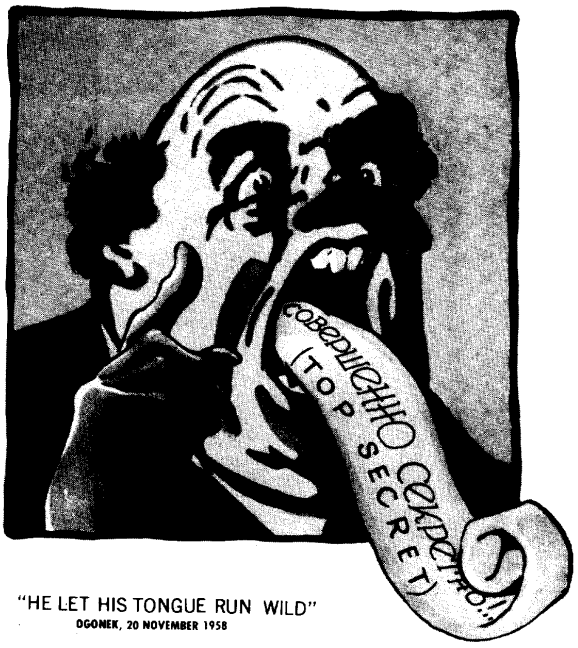
Since coming to power, Khrushchev has carried out shake-ups in the party, the government, and the army to break up and prevent the development of entrenched power, and now he is apparently beginning the process in the KGB. The question of Khrushchev's own power then, rather than policy disputes, seems to be the basic consideration in Serov's ouster.

There has been no indication of friction or disagreement between Khrushchev and Serov, but Khrushchev's intention to reduce further the role of the secret police, as expressed to Senator Humphrey on 1 December, indicates an area of possible contention. Whether Serov felt impelled to make an issue of this is not known, but in any event his removal will probably pave the way for placing new limitations on the activities of the security forces.

The new criminal code slated for enactment in the near future--possibly at the 22 December session of the Supreme Soviet--will probably limit secret police powers in criminal proceedings. Proposals along these lines have already been incorporated in the draft now being considered. There have been no reports to suggest, however, that the party and secret police have come into conflict over this issue, nor is there any suggestion in the present campaign for vigilance against "capitalist spies" that the security forces have been derelict in their duties.

Vigilance Campaign

An article written for the Soviet journal Party Life by V. Moskovsky, head of the party central committee's propaganda and agitation department for the RSFSR, is the latest indication of the seriousness with which Soviet officials regard the vigilance campaign they have been conducting this fall. The campaign, directed against disclosures of military and state secrets, has apparently become necessary because of the increased contacts between Soviet citizens and the free world



"HE LET HIS TONGUE RUN WILD"
OGONEK, 20 NOVEMBER 1958

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

as a result of the exchange program.

The article emphasizes that it is essentially the party's responsibility to ensure that Soviet citizens are security conscious in associating with foreigners and that violations will be punished in accord with the strict provisions of the 1947 edict dealing with disclosures of state secrets.

The Moskovsky article is apparently patterned after a central committee decree--allegedly issued in September--decrying the lax attitude of both responsible officials and ordinary workers toward state secrets and pointing up the danger that secret information will reach Western governments through inadvertent disclosures or boasts by Soviet citizens.

Throughout the fall, the Soviet military press has carried articles reminding servicemen of "imperialist subversive activities" and of the threat of "spies and diversionists among us." Stories of downed American balloons, charges of the theft of a letter by an American military attaché, and revelations by Soviet redefectors regarding alleged American espionage have been kept constantly before the public. 25X1

PRESSURE TACTICS IN SOVIET TRADE

Only on rare occasions does the USSR use economic leverage on nonbloc countries for overt political purposes, but even in these cases, in order not to jeopardize its long-range program, Moscow disguises the harassment by pronouncements that conceal its essential political purpose. The most blatant Soviet pressure was evident in the postponement of aid to Yugoslavia in February of 1957 and its virtual cancellation in May 1958. This action, which Moscow termed a Communist family affair, appears to have been accepted as such by most free-world countries susceptible to Soviet economic efforts.

The recent fall of the Fagerholm coalition government in Finland was for the most part accomplished by Soviet economic manipulation. Iran, which has refused to loosen its ties with the West, has been warned by Moscow that economic pressures may be applied. The Soviet Union, which normally purchases small quantities of contaminated, substandard Iranian rice which is not salable elsewhere, has indicated that no purchases are planned this year. While this action is no great loss to Iran, it undoubtedly registers as a threat that more potent economic pressures can be exerted.

Because of its political motivation, Soviet trade is often artificial, characterized by wide fluctuations in the volume exchanges with particular trade partners as targets shift or pressure is resisted. For example, imports from Egypt rose from $5,000,000 in 1954 to $90,000,000 last year; on the other hand, imports from Burma, which were $11,000,000 in 1956, dropped back to $3,000,000 last year. Following the political break with Australia in 1956, imports, which averaged $20,000,000 since 1948, were completely canceled.

The 1954 trade drive in Latin America included some $20,000,000 in imports from Uruguay that year. Purchases were subsequently reduced to about $1,000,000. The resumption of Moscow's trade offensive this year in Latin America, which has stemmed from Soviet

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

exploitation of Latin America's dollar shortage and large surpluses of exportable raw materials, has resulted in purchases from Uruguay totaling $9,000,000 in the first quarter alone.

If a country from which initial purchases are made is not responsive to a further growth of relations, Moscow often threatens to seek new sources of supply. Imports also are frequently diverted from the traditional sources to countries where new efforts are under way. Moscow's desire to seek increased influence in Indonesia has been accompanied by an increase in its purchases of rubber there last year, while Malaya's share was sharply reduced. The growth of local Communist influence in Iceland is being supported by increased imports of fish, which have more than doubled in the past two years while imports from Norway have been reduced.

The USSR also exerts casual pressure through its penchant for bilaterally balanced trade. Free world trade partners are forced to develop domestic markets for Soviet goods at the expense of preferred traditional Western sources of supply. (Prepared by ORR) 25X1

BRAZILIAN MOVES REGARDING BLOC TRADE

The Brazilian Government in the past two weeks has publicly committed itself to exploring all possibilities for expanding trade with the Soviet bloc, but at the same time has denied any intention of broadening its diplomatic relations beyond the present ties with Poland and Czechoslovakia.

This public stand on bloc trade is designed at least in part to support Brazil's efforts in the inter-American "Committee of 21" now meeting in Washington to obtain a basic "political" declaration on long-range economic development goals in the hemisphere. The Brazilian delegate, in a departure from Brazil's usual conciliatory diplomacy, has presented a long-range study purporting to show that US markets for Latin American products and the level of US loans, investment, and aid in Latin America are far below what is needed to assist the area in reaching a "borderline" level of economic development by 1980.

He also stated that Europe is "gradually closing its doors to our products" and that, since the US market is unlikely to expand sufficiently, Latin America will have to turn to new, "non-conventional markets such as those of the USSR and continental China." His general line of argument has been supported by President Kubitschek and other top officials.

25X1

25X1

The small-scale cocoa-for-oil barter deal concluded with the USSR in October is regarded by most officials as of marginal value, since cocoa still commands a relatively good market in the dollar and sterling areas. Reports that the Czechs have offered a five-year

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

trade agreement worth $400,000,000, including economic development projects, have been characterized by top officials as "vague dreams."

At the same time, however, the chief of the Foreign Ministry's economic department plans to travel from Geneva to Prague and Warsaw in the near future, and a ministry spokesman said that, if the trip produces any "concrete proposals," they will probably be accepted. [redacted] 25X1

[redacted] (Concurred in by ORR)

25X1

THE OUTLOOK IN VENEZUELA

Venezuelan President-elect Romulo Betancourt, whose inauguration will probably be scheduled for January, apparently plans a coalition government that will include the two other major parties, along with his own leftist Democratic Action party (AD), but will exclude the Communists. All three coalition parties are committed to seek social reform, a larger share of US-owned oil company profits, and may consider the establishment of relations with the Soviet bloc. Long-standing antagonism between Betancourt and the military raises the possibility

25X1 of a coup attempt [redacted]

Unofficial results of the presidential election of 7 December indicate that Betancourt won over 46 percent of the total vote; former junta president Admiral Larrazabal, candidate of the Democratic Republican Union party and the Venezuelan Communist party (PCV), about 38 percent, including only about 4 percent from the Communists; and the Christian democratic COPEI party candidate Rafael Caldera, only about 16 percent. Pro-Larrazabal youth groups, probably partly directed by Communists, demonstrated against Betancourt's victory in Caracas on 8 and 9 December, in one of the few outbreaks of violence during the campaign.

AD is also expected to win the largest number of seats in the congressional elections, in which the Communists apparently polled at least 6 percent of the total vote. The PCV has reportedly already won 11 seats and may win more. Moreover, the heavy concentration of the Communist voters in the Federal District could be a source of future political unrest.

The three coalition parties have agreed to implement a minimum reform program after the new government's inauguration, probably on the 23 January anniversary of the ouster of former dictator Perez. Such a program would include: extension of control over the foreign-owned oil industry and an increased government share from the existing 50-50 profit-sharing formula with the oil companies; a similar revision of government relations with the two US-owned iron mining companies; development of a national oil enterprise with its own tanker fleet; and possibly the establishment of

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

relations with one or more Soviet bloc countries.

Stability of the new regime after inauguration will depend in large measure on the continuing unity among civilian groups and the ability of the coalition to avoid serious interparty strife. A declaration signed by the three presidential candidates on 6 December to uphold the outcome of the elections was apparently designed to maintain unity and to remind the dissident military elements of civilian strength against any coup attempt. Betancourt's victory has apparently not provoked thus far any organized effort among the armed forces to oust him. Nevertheless, any breakdown in public order, serious violence, efforts to reduce the power of the armed forces, or extremist reform measures could provoke military intervention. 25X1

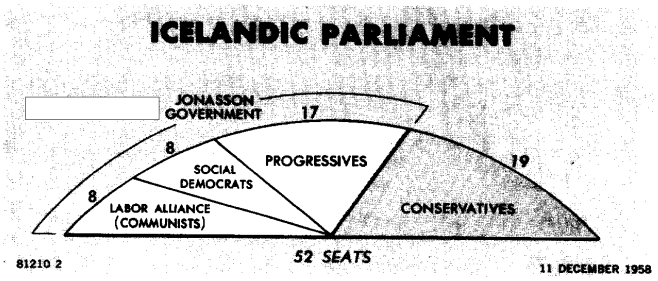
ICELAND'S SEARCH FOR A NEW GOVERNMENT

Negotiations are continuing in Iceland for a successor to the three-party coalition cabinet of Progressive Prime Minister Hermann Jonasson, which resigned a week ago as a result of disagreement over economic reform measures. The crisis may be protracted, however, in view of the difficulty of forming a majority government in the present parliament.

Efforts are apparently being made to reconstruct the Progressive - Social Democratic - Labor Alliance (Communist) cabinet, but the two labor parties probably are demanding too high a price for their continued participation. Meanwhile, Olafurs Thors, leader of the Conservative party, is considering a temporary alliance with the Communists aimed at revising the electoral law so as to correct the present imbalance which favors the rural areas. If these negotiations fail, a temporary expedient may be devised, such as a nonparty government of civil servants to rule until new elections are called. General elections are not mandatory before 1960 and are normally held only in the warmer months.

25X1

Fear of the powerful opposition Conservative party was the principal factor in holding the Jonasson government together. The government's resignation, therefore, is a calculated risk on the part of the coalition partners that the Conservatives will not be able to exploit the differences among the three or force new elections in early 1959. Early elections would be particularly disadvantageous for the largely rural Progressive party, which already faces the problem of a declining farm population and would be further handicapped by a lower turnout of farm voters during the winter months.



Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

The Communists probably view the possibility of new elections with more confidence. Their party has successfully frustrated efforts to reach a negotiated settlement with Britain in the fisheries dispute and has curried public favor by advocating extreme measures. They have also won popularity by supporting wage increases, even though this issue forced the fall of the government.

25X1

[redacted]

[redacted] if the Communists remain involved in domestic controversies with the other parties, the prospects of working toward a detente on the fisheries issues may improve. At the moment, however, there are no indications of a break in the impasse. If new elections are called, each party will strive to appear the most effective champion of Iceland's interests on this issue.

25X1 25X1

25X1

GROWING PAINS FOR CHINA'S COMMUNES

Peiping's initial efforts to set up people's communes in urban areas are apparently encountering difficulty in some of the nation's major cities. The regime has moved cautiously and comparatively slowly in this direction, but it has made clear to urban residents its intention to see the commune system established in urban areas.

In mid-November, Ko Ching-shih, Shanghai's mayor and a party stalwart, told the city that communes will be set up there, but he indicated this should be done carefully, in view of the "wide differences between city and country." Ko noted approvingly that many areas of the city had begun to set up on a trial basis the first trappings of urban communes--"public service" restaurants and nurseries. At about this time, residents of both Shanghai and Peiping were reportedly being required to attend meetings to "discuss" the establishment of urban communes.

The experimental nature of the program has led to apprehension on the part of individuals as to just how the new system will affect them.

[redacted]

25X1

[redacted] the regime's moves have caused confusion and tension. In both cities, uneasy residents have attempted to withdraw their money from banks to keep it out of the communes' hands. In Peiping, private possessions other than ordinary household goods and watches, radios, and bicycles--which the regime says it will permit individuals to retain--are being peddled. This has resulted in a glutted market for private possessions likely to be confiscated by the communes.

25X1

In the countryside, the first phase of the communalization drive is over, and the regime is moving on to the next stage--improving and consolidating the communes. Teams are

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

being dispatched to rural areas to investigate the strengths and weaknesses of the communes. Foremost among the problems being encountered seems to be that of the new communal messes, which are being criticized for serving drab and monotonous meals. Rural cadres have been enjoined to ensure that the food served is both tasty and nutritious; to this end the armed forces have dispatched kitchen personnel to transmit the needed know-how.

Problems of distributing income among the competing demands of the state, the commune, and its members loom large, as does the reluctance of the individual Chinese to depart from the traditional forms of family life. Peiping used a recent meeting of women activists to assure the populace that family life would become even more rich and beautiful and that family units would be kept together in communal housing developments. The regime continues to insist, however, that the traditional patriarchal family system is being eliminated.

The full impact of Peiping's far-reaching reorganization of Chinese society is just beginning to be felt among Overseas Chinese in Southeast Asia. In general, Overseas Chinese are disturbed over the impending destruction of traditional family life on the mainland and feel that ties with their relatives on the mainland will diminish.

Overseas Chinese concern with Peiping's program is best seen in the sharp drop in remittances to the mainland. Those through Hong Kong have reportedly dropped to the lowest volume since 1955, and a similar decrease is reported from Singapore and Bangkok and in black-market remittances from Saigon families. Remittances from Overseas Chinese in the Philippines have dropped to almost nothing. Overseas Chinese investment in mainland housing and public projects have all but ceased. At the same time, financial contributions from Philippine Chinese to Taiwan have increased.

Except for Prime Minister Nehru of India, South and Southeast Asian government leaders have shown much less interest in China's commune program than in the Taiwan crisis. Nehru is sending a small group of experts to study Peiping's "giant leap forward"--including communes, but he has indicated that the Chinese emphasis on regimentation is not applicable to India. [redacted] (Prepared jointly with ORR) 25X1

TAIWAN STRAIT SITUATION

Peiping apparently feels the earlier intensity of the Taiwan Strait crisis served its purpose of testing the American reaction and calling attention to Communist China's claims to Taiwan and the offshore islands. The present relative quiet seems designed to preserve neutral sympathy for these claims and

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

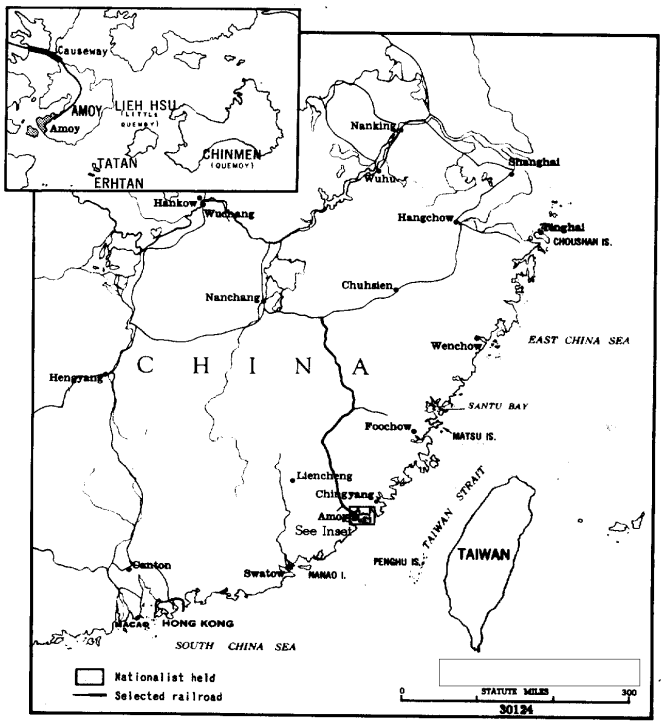
Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

to offset suspicions of Communist aggressive intent. Peiping is also anxious to prevent the development of a situation in which the United States would resume convoying activity, and to create an aura of controlled peace under which the Nationalists might be induced to discuss the matter of "reunification."

While Peiping continues to stress the eventual "liberation" of Taiwan and the offshore islands, the implications of immediacy which prevailed in August and September have disappeared. A massive reorientation program based on Mao Tse-tung's "paper tiger" theory--that the United States should be despised strategically but feared tactically--is now under "intensive study" on the mainland, and is designed to explain why Communist China did not expand hostilities in the Taiwan Strait area.



25X1

Militarily, Communist China continues to follow the alternate-day firing schedule, bombarding the Nationalist-held islands on odd days only. Normally the shelling is token; on 1 December, however, over 2,000 rounds were fired--possibly a reaction to the Nationalist shift of a battery of 155-mm. guns from the west side of Chinmen to the east--and on 9 December 4,000 rounds.

The Chinese Communist Air Force has apparently taken extensive measures to improve the fighting capability of its units following September's losses.

Apart from air clashes which might result from any Nationalist flights near or over the mainland, Chinese Communist military activity does not seem to indicate stepped-up operations in the strait area in the immediate future.

25X1

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

SOUTH KOREAN GOVERNMENT MAY ABRIDGE CIVIL LIBERTIES

The South Korean Government's proposed revision of the national security law, which appears to be largely motivated by political considerations, could lead to suppression of the opposition Democratic party and curtailment of civil liberties. The Democrats fear that the administration will use its new security powers to frustrate their plans to exploit the government's expected failure to establish an upper house as required by the constitution. They also suspect that the government is moving to restrict their activities in the 1960 presidential election.

The revised version of the security law loosely defines espionage and would make liable to criminal charges "anyone who has benefited the enemy by disturbing the people by reporting or spreading false facts or distorted news." Proponents of the measure claim that its enactment is necessary for the suppression of Communist subversion, while its opponents insist existing laws are sufficient to handle such danger. The vagueness of the law and the administration tactics in supporting it suggest that it is designed to curb rising popular support for the opposition.

Aroused by the threat to press freedom, practically all newspapers except those identified with the administration have joined the Democrats in sponsoring a nationwide protest campaign. Opposition leaders have used obstructionist tactics in the assembly and are considering a boycott if the governing Liberal party uses its majority to force passage of the measure.

Rising opposition at home and fear of losing American and international support may induce the government to tone down the offensive parts of the proposed bill before pushing it through the assembly. However, in an effort to muffle opposition the government already has suspended some rights of public assembly in Seoul, and the Liberals have organized an "Anti-Communist Fighting Committee," which Democrats fear may become a terror group.

Gains made by the opposition in the last two general elections have made the Liberal party reluctant to hold an election to establish the upper house of the legislature by the legal deadline of 25 January 1959. Assembly debate on the issue has revealed a lack of understanding of the theoretical and practical implications of a bicameral legislature, and many Democrats, while posing as champions of constitutional and statutory law, probably have serious doubts about the wisdom of creating another chamber. Nevertheless, they hope to use the issue to point up the Rhee government's deliberate disregard for the law when Liberal party interests are involved. 25X1

SITUATION IN INDONESIA

The recent meeting of Indonesian President Sukarno and key cabinet members to discuss means of implementing his "guided democracy" apparently brought into the open the growing opposition from Indonesian political parties to the

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

expanding role in the government of the army under Chief of Staff Nasution. 25X1

25X1

25X1

"functional groups"--labor, women's, veterans' and other groups--could be represented in Parliament as elected rather than as appointed members. This decision could prove a setback to Nasution's plan to increase army representation in the legislative as well as executive and diplomatic fields. 25X1

25X1

The conference postponed action on such topics as Nasution's request for extension of martial law and measures to limit the number of political parties. Nasution reportedly did not attend the meeting because it concerned civilian policy decisions, but he may participate in subsequent discussions. Ambassador Jones regards Nasution's absence as significant and believes that, short of a direct clash with Sukarno, he may be expected to react sharply to any efforts by political leaders to relegate the army to a nonpolicy role.

Elements within the army, led by former General Staff officer Bambang Supeno and allegedly supported by the air and navy chiefs, are also said to be working against Nasution. These opposition factions could have the encouragement of President Sukarno, who may see Nasution's growing power as an eventual threat to himself.

An Indonesian Army spokesman in Djakarta has asserted that the army is now investigating reports that the Sumatran dissidents, together with the fanatic Darul Islam sect, are planning to declare a separate state of Sumatra in mid-December. The dissidents still control substantial portions of the countryside in Sumatra and North Celebes and are able to mount sporadic campaigns against government-held towns and positions, although they suffer a chronic ammunition shortage. 25X1

FIRST WEEKS OF NE WIN RULE IN BURMA

During the first six weeks in office, the army-backed "interim" regime of General Ne Win has concentrated on consolidating its control over the machinery of government in preparation for the formidable tasks Ne Win has set out to accomplish within six months. The position of the army as the paramount influence in the new government is becoming increasingly clear. Three of the politically active "young colonels," who next to Ne Win are the most powerful figures in Burma, have been assigned as "liaison officers" to the Defense, Home and Information ministries, where their word carries considerably more weight than that of the nonpartisan careerists who nominally operate these ministries. The army has also taken steps to bring the national police more firmly under its control.

On the economic front, the government, with the army playing a prominent role, has cracked

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

down on illegal profiteering in consumer goods. It has taken steps to bring down the price of fish, a major dietary item. These measures are calculated to bring immediate political credit to the army, as is its well-publicized campaign to clean up the streets of Rangoon and other urban centers. Another move likely to be popular is the army's assumption of responsibility for governing the city of Rangoon, which previously had been badly run by an inefficient public corporation.

The government is moving more slowly in carrying out its promise to wage an intensive campaign to suppress the Communist and Karen insurgents as a precondition for holding free elections in April. A few above-ground Communists, including the secretary general of the opposition National United Front, have been arrested and a small-scale campaign launched against the Karens. Ne Win's determination not to come to a negotiated settlement with the Communists is attested to by the announcement that the price on insurgent leader Thakin Than Tun's head has been doubled.

While the government apparently is taking all the procedural steps requisite to the holding of April elections, it is becoming increasingly apparent that they will be postponed, probably on the ground that more time will be needed to pacify the country sufficiently to permit free elections. As an alternative, Ne Win is variously rumored to be considering turning the government over to nonpartisan careerists or returning his mandate to parliament with a request that the majority party--probably the Ba Swe - Kyaw Nyein faction--form a new government. Either course would evoke a storm of protest, and Ne Win instead might find it more expedient to obtain a limited extension of his term of office. 25X1

* * *

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

25X1
Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Page Denied

Next 1 Page(s) In Document Denied

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

[redacted]

25X1

* * *

THE INTERNAL SITUATION IN EAST GERMANY

The reintroduction of the Berlin issue in international politics comes at a time when party boss Walter Ulbricht has solidified his control of the East German regime.

The Purge and Its Causes

Between mid-October 1957 and February 1958, Ulbricht forced a reluctant party central committee to adopt a sweeping program to speed up socialization--a move probably coordinated with Khrushchev during his visit to East Germany in August 1957. Party elements headed by Karl Schirdewan, who had generally been regarded as Ulbricht's successor, strongly condemned the proposed measures as unrealistic and likely to lead to dangerous public unrest; they called instead for a program tailored to the country's needs. Schirdewan himself apparently felt that a slower pace would facilitate eventual German reunification, since drastic socialization of East Germany would make union extremely difficult. Pragmatic economists like Fred Oelssner, Heinrich Rau, and Fritz Selbmann pointed to the economic disorganization they thought would result from Ulbricht's decentralization measures.

The decisive clash between Ulbricht and the Schirdewan faction came at the 35th party plenum in February 1958. In a searing attack, Erich Honecker, Ulbricht's hatchet man, charged Schirdewan and former State Security Minister Ernst Wollweber with "fractional" activities--a major Communist crime--as well as with softness toward

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

counterrevolutionaries and, in the case of Schirdewan, opposition to Ulbricht. Both were removed from the central committee. Former party theoreti-

ULBRICHT

cian Oelssner was accused of "opportunism" in agricultural policies and opposition to Ulbricht's decentralization proposals, and was dropped from the politburo. Schirdewan, Wollweber, "and others" were further charged with "revisionist views" and faulty ideological interpretations.

The purge was completed last July at the fifth party congress--attended by Khrushchev--when no fewer than 17 central committee members and 10 candidate members were eliminated. Both Oelssner and Selbmann fell at this time.

Other high-level functionaries who have at times wavered in their support of Ulbricht survived, at least temporarily. These included Rau, who was retained as a politburo member and deputy premier, and Premier Grotewohl, who went on "a rest cure of several weeks" in the USSR after the plenum--lending support to reports that his position was shaky.

Effect of Purge

The purge restored party "unity," but uncertainty and unrest were rampant throughout the party apparatus. Since Schirdewan had headed the party's personnel office, many functionaries were personally linked with him and fearful for their positions.

The elimination of Schirdewan and others who had had some measure of popular approval confirmed for East Germans, especially the intellectuals, that there was little hope for any real improvement in political conditions.

To replace the purgees, Ulbricht installed several new central committee secretaries, including Honecker and certain district party secretaries. Control of the party personnel organization was turned over to Berlin party boss Alfred Neumann, thus marking him as a man of increasing importance. Ulbricht's personal toady, Erich Mielke, had earlier replaced Wollweber in the Ministry of State Security.

HONECKER

Ulbricht then rammed through the party congress his political and economic program

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

keyed to overtaking West Germany in consumer-goods production and food consumption by 1961 and pushing ahead to complete the "building of socialism" by 1965. The implementation of economic decentralization actually was designed to give Ulbricht even closer control over all East German economic life, since the measure provided for greatly increased authority to the State Planning Commission, which is headed by Ulbricht's tool, Bruno Leuschner.

This far-reaching economic program was based on closer economic ties with the USSR. As a measure of Soviet economic aid, East Germany's annual payments for the maintenance of Soviet occupation forces, estimated at approximately $150,000,000, were canceled effective 1 January 1959. Special targets for socialization were small businesses and agriculture, while the professional classes--notably doctors--were to be brought into state-controlled organizations.

Communist indoctrination was to be stepped up in schools through "polytechnical" education--i.e., combined physical labor and study obligatory for all students above the age of eleven. By 1960 all prospective university students were to have served for one year in a factory, in agriculture, or in the armed forces.

These measures were accompanied by intensified efforts to limit contacts with West Germany through curtailed travel and by more stringent police measures against defectors and those who aided them.

Consequences of Hard Course

The new program vastly increased smoldering popular discontent and seriously disrupted certain areas of the economy, notably retail trade. Regime promises were treated with derision. Essentially, however, political oppression and severance of ties with the West constituted the main grievances. 25X1

LEUSCHNER

25X1

Even more than the "bourgeois remnants," East Germany's intellectuals--professional men, scientists, technicians, university professors, and students--began to despair of a change for the better. Already hard hit by repression and increasingly barred from contact with West Germany and Western culture, intellectuals were subjected to unremitting demands for ideological subservience. In the universities, politically unreliable professors were dismissed and students were forced to take an oath to support the regime. 25X1 25X1

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

25X1

25X1

25X1

East Germans now knew the truth of Pasternak's description--"the feeling of the state closing in on individual privacy."

Oppression of the middle class and intellectuals led--as the Schirdewan group had warned--to a mass exodus to the West. Professional men, scientists, and technicians whom the regime could ill afford to lose constituted an increasingly large proportion of the refugees. Many were party members. In the first nine months of 1958, more than 250 university professors and instructors, 2,393 schoolteachers, and many youths escaped. The loss of 813 doctors, approximately 8 percent of East Germany's total, left some areas temporarily without medical care. The flight of business executives, retailers, and artisans left dangerous gaps in the economy. Opposition in the higher levels of the party to Ulbricht's economic policies was mounting, reportedly centered as before among the pragmatic economists in the government, including the State Planning Commission.

25X1

25X1

25X1

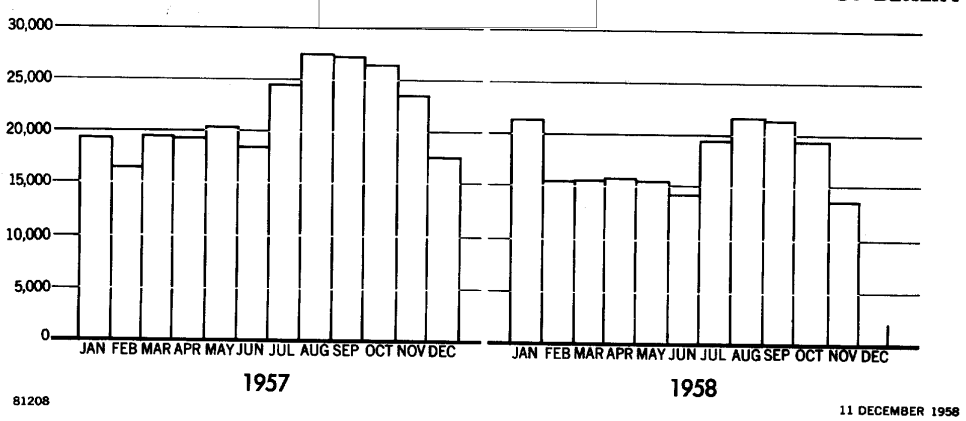
Shift to Softer Party Line

By early September it apparently became clear even to Ulbricht that a drastic change in the party line was required to reduce popular unrest and stem the refugee flow. The new line was unveiled with an announcement of far-reaching concessions to doctors to permit private practice, do away with ideological qualifications, and permit travel to the West. To implement the new policies, two special politburo commissions were set up under Kurt Hager: one received sweeping powers to make "all possible" concessions to doctors; the second was to supervise school affairs.

In a move to stem the flight of small businessmen and artisans, Ulbricht himself announced a slowdown in the socialization of small business enterprises, giving notice that "in one or two years" such individuals would probably enter a socialized agency "voluntarily." Party activists and officials were

EMIGRATION FROM THE SOVIET ZONE AND THE SOVIET SECTOR OF BERLIN

25X1



Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

accused of arbitrarily raising work norms or being overzealous in carrying out party directives to collectivize independent farmers, and their co-

HAGER

ercive measures were stigmatized as "distortions" of party congress directives.

Although Ulbricht probably had discussed his modifications of the hard line with Khrushchev during his visit to the USSR in August, a delegation of ten high-level Soviet party functionaries was sent to East Germany in early September to survey the situation and to impress East Germans that the shift in policy had the Kremlin's blessing.

The further demotion of Fritz Selbmann at this time from his post as deputy premier and his removal from the staff of the party theoretical journal probably were meant as a warning to Ulbricht's party opponents not to misinterpret the shift to a softer line.

Pressure for More Concessions

Ulbricht's reversal immediately began to backfire. Many people conceived the idea that the regime's difficulties could be exploited to gain concessions for themselves, particularly since the approaching elections made the regime somewhat more responsive to public opinion. The populace in general became more open in its criticism. An American officer during a tour talked with many East Germans who were "highly derisive and sarcastic" about the Russians and the East German regime. He noted that he had never before heard such bitter and outspoken criticism expressed so openly. Workers in the important Leuna works were openly cynical about the elections.

Responding to these pressures, the regime instituted further concessions to improve living conditions. On 3 November the politburo announced that more consumer goods would be available, demanded that private retailers receive adequate supplies, and sharply reproached government officials for permitting price increases.

As did the purge of the Schirdewan group, Ulbricht's maneuvers increased intraparty strains. Party officials found it difficult to adapt themselves to the new line.

The Berlin Gambit

Against this background, the introduction of the Berlin issue appears designed at least in part to strengthen the East German regime by emphasizing its "sovereignty" and eliminating West Berlin as a Western enclave in the bloc. Moscow's handling of the affair has played up Ulbricht's authority, and his adherents in the party are reported gloating over the adoption of "his" policies by Khrushchev.

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

Ulbricht in the meantime appears to be taking even more decisive steps to tighten his control over the party organization. 25X1

NEUMANN

25X1

Since Schirdewan's dismissal, no other party figure has emerged as a potential contender for power or even as heir apparent among the top party leadership. Of the possible successors, Hermann Matern and, more recently, Alfred Neumann appear to hold the edge; Moscow-trained Erich Honecker might in time aspire to the mantle.

The outlook for the East German people is gloomy. Ulbricht's recent concessions were purely tactical, and he has not basically retreated from

MATERN

his intention to impose Communism on the people. Recent developments, moreover, have made East Germany increasingly dependent on the USSR both politically and economically. If access to the West through West Berlin is cut off--the interzonal borders are already largely sealed--little hope of escape will remain for East Germans, who will be forced to make their peace with Ulbricht on his terms. Ulbricht and his party will still be faced with an essentially unstable internal situation--one of such magnitude that the USSR knows it cannot safely withdraw its troops for a long time to come. 25X1

(Concurred in by ORR)

25X1

* * *

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

CZECH ECONOMIC PATTERNS, 1956-65

Czech industrial growth since World War II has been considerable for an already industrially well-developed economy, but emphasis on heavy industry has brought with it problems which the regime is only now attempting to solve. Broad reforms in the areas of financing, planning, wages, and industrial administration are for the most part under way. At the same time, the socialization of agriculture continues to be pushed.

Plans being drafted for the period through 1965 and even later are predicated on large increases in labor productivity, which in turn rely heavily on successful implementation of economic reforms. Popular expectations of an uninterrupted rise in living standards may not be fulfilled as capital investment siphons off a greater share of the national product. Plans are tied closely to those of other bloc members, and Czechoslovakia will become more and more dependent on the USSR for materials and markets.

1965 Targets

Development of the economy has been projected to 1965 in general terms and will entail large increases in industrial production, with emphasis on heavy industry, completion of the socialization of agriculture, and intensification of efforts to coordinate production plans with those of the rest of the bloc. Compared with 1957, gross industrial output and the volume of transport are to rise 90 to 95 percent, construction 70 to 80 percent, and agricultural production 40 percent. Labor productivity in industry is to rise 75 percent; production costs are to be reduced by 27 percent.

The annual rate of growth projected for industry as a whole between 1958 and 1965 will be under 9 percent, compared with 11 percent per year achieved in the 1950-57 period. Some industrial branches will expand much more rapidly than others; the chemical industry is to raise output 150 percent and engineering 130 percent. Metallurgy and the power industry are also to have rapid rates of growth; the food industry, however, is scheduled to expand only 40 percent. The plan thus reverses the trend in 1955-57, when the gap between rates of expansion for capital and consumer goods was considerably narrowed.

Political and economic pressures in Slovakia have apparently led to a decision to "equalize" production and consumption levels in the Czech and Slovak lands. The project for a giant metallurgical complex in the vicinity of Kosice, eastern Slovakia, is being resumed, and industrialization throughout Slovakia is to be

CZECHOSLOVAKIA: PRELIMINARY GOALS FOR 1965

	PRODUCTION		PERCENTAGE INCREASE	
	1957	1965	1950-57	1958-65
ELECTRIC POWER BILLION KWH	17.7	38	113	115
HARD COAL MILLION METRIC TONS	24.2	35.5	42	45
BROWN COAL MILLION METRIC TONS	48.8	77	92	58
CRUDE STEEL MILLION METRIC TONS	5.2	9.5	86	77
CEMENT MILLION METRIC TONS	3.7	7	118	89

25X1

81208 38

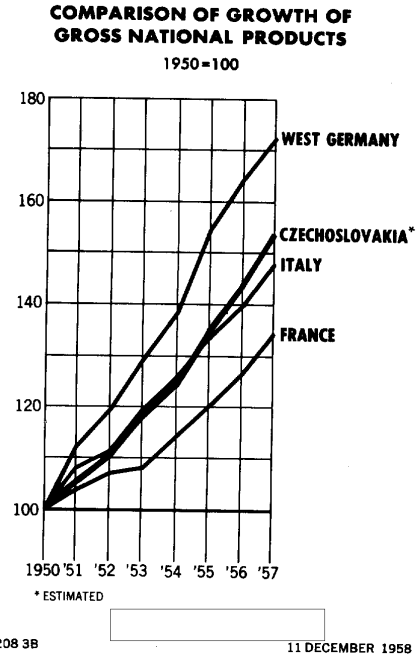
11 DECEMBER 1958

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

stepped up during the 1958-65 period. At the same time, the regime will continue to push resettlement in areas bordering the two Germanys.

Officials invariably emphasize that closer cooperation between bloc members is necessary if Czechoslovakia is



25X1

to achieve 1965 production targets and rival the per-capita output of Western countries in such selected indicators as electric power and steel. Coordination of plans for the next 10 to 15 years is now under discussion; by 1965 Czechoslovakia should be even more firmly tied to the Soviet bloc as a result of trade agreements and adjustments in its production patterns. The USSR will remain Czechoslovakia's primary trading partner and will supply an increasing volume of such products as machinery, iron ore, and oil. Czechoslovakia hopes to strike a balance in trading of foods, for which imports are presently three times exports.

The rate of growth planned for agriculture--4.3 percent annually--is a substantial acceleration over advances actually obtained during 1956-57, when the output level rose less than 4 percent. Although targets for 1960 were recently lowered slightly, they still imply an annual average increase for 1958-60 greater than that for the succeeding five years. Thus the 1965 goal is modest in terms of past plans. Some 40,000-45,000 young people are to be added annually to the agricultural labor force, and collectivization of agricultural land--of which almost three fourths is now socialized --is to be completed.

The regime contemplates a slower rate of increase in personal consumption--roughly 4.8 percent annually--and postpones a solution of the housing problem until 1970. Families in lower income brackets are to benefit most from a rising living standard, which will be achieved primarily through price reductions on food and other consumer essentials. No statements have been made on the amount by which real income is to rise, however. The workweek, reduced by two hours to 46 in 1956, will not be shortened again until some time after 1965.

Problems

Numerous economic problems have become pressing in recent years. Raw-material constraints, easy work norms, ineffective management, and obsolescence of capital equipment had gradually raised the costs of industrial production, and by the beginning of 1958 these factors were jeopardizing goals for productivity, on which a high proportion of future industrial expansion is based. Growth of wages had outstripped that of productivity, and inflationary pressures

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

were increasing by early 1958. Additions to the labor force, formerly relied on for substantial production increases, are becoming increasingly more difficult to find.

Agricultural production in 1957 remained at only 97 percent of the level in 1936, and unfavorable weather this year has kept production at about that level. Agriculture is the weakest sector in the economy today, as a result of preoccupation with industry, rapid collectivization of agriculture, and mass migration of agricultural workers to urban areas. The rate of growth for agricultural investment in 1957 dropped sharply from the high rates of 1955-56 and was far below the level necessary to supply needed equipment to the farms of the collective sectors. Present production goals for 1960 will not be met.

Foreign trade also began to show an unfavorable picture in 1957. The slow growth of agriculture continued to strain the balance of payments, as did a temporary slackening of bloc demand for Czech investment goods. Very large imports of Soviet raw materials, combined with a decrease in the Soviet demand for traditional Czech engineering exports, resulted in a deficit of $140,000,000 in trade with the USSR. Czechoslovakia was able to reduce this to $29,000,000 in total trade, primarily because of expanded markets in underdeveloped countries.

Reforms

Since the beginning of this year the regime has cut administrative staffs throughout the economy and has reorganized economic management from top to bottom in an effort to give enterprises greater responsibility and incentive to meet production plans. The reduced bureaucracy was placed under a revised salary schedule which in general maintained the average salary while lowering the regime's bill. Industrial enterprises were entrusted with operational control over production, and the powers of the central economic ministries were correspondingly curtailed. Partial success with these measures may in part account for the fact that 1958 industrial targets will be surpassed. The regime admits, however, that reductions of bureaucratic personnel have not been drastic enough.

A wage reform to be put into effect over a two-year period and to affect eventually about two million industrial workers has been started. The reform, designed to increase labor productivity, will reevaluate wage schedules according to the branch of industry and the type of work performed. Work norms will be raised, and overtime allowances and other bonuses slashed. This year the regime has also required workers to account for absences more closely. Reform of wages and norms is apparently not being well received among the workers--a circumstance which probably accounts for last month's publication of a central committee letter reiterating promises to the populace for improved living conditions by 1965-70.

The Czechs are speaking increasingly of the need for changing the pattern of industrial output to achieve 1965 goals. Such a program, which has been urged by the USSR and the Council for Mutual Economic Assistance (CEMA), could reduce costs in the long run by limiting production to fewer items while increasing the volume of output.

The comprehensiveness of the program to be applied in Czechoslovakia is still not known, as planning officials

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

are still drafting details. However, the engineering and chemical industries--where output is to rise most dramatically by 1965--have already been singled out for changes in production patterns. Should the program prove to entail extensive retooling--which might temporarily lower output in the enterprises affected--it could become the most important of all current and anticipated reforms.

New methods of financing and planning are being worked out for initiation throughout the economy in 1959. The proposed methods are designed to increase efficiency in the use of raw materials and allow enterprises greater participation in the drafting of plans. In order to facilitate bloc coordination, planning periods will be extended beyond the present five-year terms and the eight-year period now under scrutiny; steps are consequently being taken to alter the planning apparatus.

In agriculture, the projected transformation of remaining small and medium-size private farms into collectives will eliminate the last strongholds of private enterprise, but the performance of this sector cannot be substantially improved without a marked increase in investments. Although the regime promises more machinery in the future and possibly could obtain desired additions to the labor force through coercion, production targets for 1960 appear at least no more feasible than those under previous long-range plans, in view of the slow progress in agricultural output since 1955.

[redacted] (Prepared by ORR) 25X1

* * *

LATIN AMERICA'S DESIRE FOR US INVESTMENT

The drive for economic development in Latin America has resulted in new attempts by the various governments to attract foreign capital while still placating nationalist opposition to such investment. The area now has 35 percent of all private US direct investment abroad--a total of $8.8 billion. A recent deterioration of Latin American economic conditions has strengthened the emphasis on attracting new private foreign investment.

Latin America as a whole is facing serious economic problems. Inflationary pressures have troubled almost all parts of the area in recent years and have been particularly serious in Argentina, Brazil, and Chile. Only Venezuela, Ecuador, Cuba, and some Central American countries have been virtually unaffected. Government attempts to control inflation have thus far not succeeded, except initially and perhaps temporarily in Bolivia. The world market for almost all of Latin America's key export products--coffee, nonferrous metals, wool, wheat, cacao, and sugar--is glutted, and even petroleum is encountering marketing difficulties.

Pressure for Development Funds

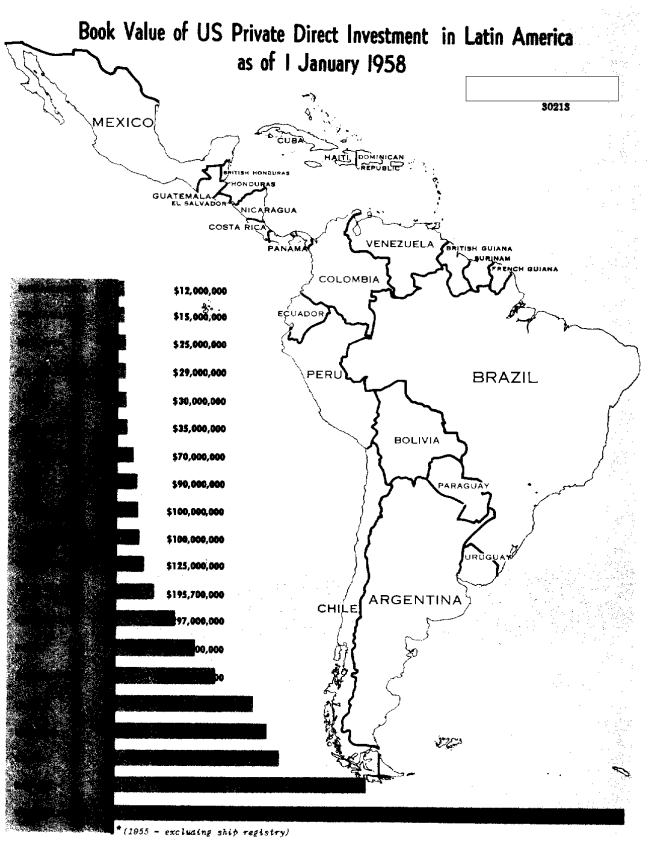
In the face of this economic deterioration and public pressures for stepped-up economic growth, many Latin American political leaders not only

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958



are making well-publicized demands for more government-to-government loans but are hoping for increased direct foreign investment as a partial solution. This interest was expressed on 17 November at the first meeting of the "Committee of 21," a conference of top-level economic experts from the American republics originally proposed by Brazilian President Kubitschek in letters to President Eisenhower last spring as a means of improving US - Latin American relations.

Kubitschek outlined a plan, "Operation Pan-America," to combat underdevelopment, which he termed the weakest link in hemisphere unity. He particularly emphasized expanded and more effective use of private capital--both domestic and foreign--in underdeveloped countries. The United States since World War II has accounted for the bulk of foreign investment in the area and is looked to as the chief source for the future, even though Western Europe, the United Kingdom, and Japan are also significant as sources.

25X1

New Interest In Oil Investment

Particularly significant are the recent official moves--in Argentina, Paraguay, and Central America--to attract the services or investment of foreign petroleum companies, which for many years were the most feared of foreign economic interests. Petroleum already accounts for over a third of US investment in Latin America, but most of this is concentrated in a single country, Venezuela. Now, however, private foreign capital is actively seeking concessions, extending exploration, or expanding production in 14 of the other 19 Latin American republics.

The most striking modification of petroleum policy has taken place in Argentina, where a government dominated by the traditionally nationalistic Intransigent Radical party is emphasizing that the participation of foreign capital in the development of oil resources is absolutely essential in view of the nation's financial crisis. Such new participation, however, is limited to contracts with the State Oil Fields. To reassure the nationalists still further, the Argentine Congress

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

has just passed a law nationalizing all petroleum and coal resources, except for private concessions existing before 1 May 1958.

Since the new policy was announced last July, the government has signed contracts totaling more than $400,000,000 with foreign, mostly US, firms and is discussing other tentative proposals for twice that amount.

The Argentine administration has also demonstrated by other actions its strong interest in attracting new private foreign investment. It has taken steps to settle outstanding problems involving foreign interests, such as the wartime expropriation of German firms. It has also drafted a new law on foreign investment to guarantee equal treatment for foreign and domestic capital.

Prospects in Mexico and Brazil

In Mexico a new equilibrium between nationalist pressures and recognition of the economic contribution of foreign investment may be worked out under the Lopez Mateos administration inaugurated on 1 December. The new regime reportedly will propose as one of its first measures a major bill to regulate foreign investment. This is likely to set off a long and spirited debate.

Nationalism now excludes foreign investment in Mexican oil, exerts an adverse influence on the operation of foreign-owned electric power companies, and has given rise to some talk of mine nationalization. In recent years, however, nationalist influence has been more than offset by such factors favorable to foreign investors as a diversified and stable economy, good communications, a comparatively able labor force, and a general recognition of the need for foreign capital.

Brazil's investment climate is similar to Mexico's in its vacillation between nationalism and desire for foreign capital. Oil, for instance, is a monopoly of the Brazilian Government despite a widespread and intense desire for rapid petroleum development. In steel manufacture, on the other hand, where government-dominated enterprises have given Brazil a production almost twice that of any other Latin American country, government officials complain that they seek US investment in vain.

Brazil and Mexico have a further similarity in being outstanding as fields for US investment in manufacturing. Incentives for new industry are provided, as in most of Latin America, by import restrictions which curtail competition and by the steadily expanding market--Latin America's population has increased about 125 percent in the past 40 years as compared with 68 percent in the United States and Canada. The key additional attraction in these two countries may be the already sizable populations--32,000,000 in Mexico and 63,000,000 in Brazil.

New Obstacles

In some of the countries recently emerged from military dictatorship, however, stronger and more freely expressed nationalism is posing new hazards to private foreign investment. In Venezuela, for example, site of about 10 percent of all US direct investment abroad, nationalist programs endorsed by all parties and major pressure groups foreshadow increasing government intervention in economic life and the strengthening of organized labor. Furthermore, whatever new government results from the 7 December elections is virtually committed to revising the 50-

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

CURRENT INTELLIGENCE WEEKLY SUMMARY

11 December 1958

profit-sharing formula with the foreign oil companies and to exercising greater control over their activities. The uncertainty created in the business community by these programs is discouraging new foreign investment.

	1952	1953	1954	1955	1956	1957	1952-57
LATIN AMERICA	-0.04	0.8	2.8	3.3	0.4	2.4	1.6
INDIA*	1.54	2.19	4.71	1.19	0.62	3.8	2.4

In Peru, nationalist pressures were influential in the rioting on 19 November against management personnel of the US-owned Cerro de Pasco Company. New government responsiveness to these pressures is suggested by such moves as a recent refusal to permit the major oil investor --also US owned--to ask a remunerative price for gasoline sales within the country. The effect of such pressures has thus far been limited, however, as is indicated by the unexpectedly rapid progress on the new US-owned $200,000,000 copper installation in southern Peru.

Outlook

Despite nationalist influences, the drive for new US investment is likely to continue since it comes in large part from a desire of Latin Americans to improve or at least maintain their economic position in relation to other parts of the world. Although living standards as reflected in per-capita gross national product are higher in Latin America than in any other major underdeveloped area, Latin America's relative position is threatened by the tendency to progress more rapidly elsewhere. Per-capita gross national product for the period 1952-57, for example, increased only 10 percent in Latin America compared with 14 percent in India and 22 percent in Communist China. 25X1

* * *

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

25X1
Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Page Denied

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3

~~SECRET~~

CONFIDENTIAL

CONFIDENTIAL

~~SECRET~~

Approved For Release 2007/10/23 : CIA-RDP79-00927A002000070001-3